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# FAMILY BUSINESS AND LUXURY BUSINESS IN ITALY (1950-2000)

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***Les entreprises italiennes de mode ont pris une grande importance internationale au cours des années 1980. C'est au cours de cette période que les marques qui sont aujourd'hui des références en matière d'élégance et de luxe ont commencé à concurrencer avec succès les marques françaises qui jusque-là avaient été les leaders incontestés de la mode. Profondément enracinée dans l'histoire de la production d'habillement qui en Italie était encore bien loin d'être industrialisée à la fin de Seconde Guerre mondiale, la renommée acquise par les firmes italiennes se comprend mieux à la lumière du dynamisme manifesté en Italie par les entreprises moyennes depuis les années 1980. La comparaison de deux marques de luxe bien connues – Ermenegildo Zegna et Giorgio Armani – démontre que leur succès a été rendu possible grâce à un mélange vertueux de stratégies innovatrices et de structures d'organisation et de propriété traditionnelles qui reflètent le rôle prédominant joué par les dynasties entrepreneuriales dans l'industrialisation italienne.***

## INTRODUCTION

The emergence of the Italian fashion brands as worldwide trendsetters of luxury consumption dates back to the 1980s. In those years Italian companies established either by young designers, such as Giorgio Armani and Gianni Versace, or by long-lived entrepreneurial dynasties, like the Zegna and Ferragamo families, arose as the most influential counterparts of the French

*couture* in matter of taste and novelties in fashion.

Although the international standing achieved by the Italian fashion industry could be regarded as an intriguing case of second comer which successfully harasses the competitive advantage boasted by the (French) pioneer, until recently business and economic historians have not considered Italian fashion as a subject of scholarly inquiry. They undoubtedly face the difficulties of finding meaningful primary

sources. Companies active in the Italian fashion system rarely possess archives, and, when they do, they are mostly archives that feature sketches, drawings and products while rarely paperwork and business records have been collected. As a matter of fact, the only attempts to put the contemporary Italian leadership in fashion into a long-term historical perspective have been made by costume and art historians who base it on centuries-long and never lost artisan skills, and on an almost innate feeling for beauty. Far from denying the importance of an approach which stresses the role of Renaissance as source of inspiration of a properly Italian style emancipated from the French model, it is equally undeniable that the history of the Italian contemporary fashion is deeply rooted in the postwar history of the Italian clothing industry<sup>(1)</sup>.

Furthermore, the affirmation at an international level of the Italian leaders in the fashion industry can be fully understood if placed inside a more general process involving a large section of the Italian manufacturing industries. In synthesis, from the 1980s onwards, many indicators stressed the dynamism of medium-size Italian firms in several branches of manufacturing, from mechanics to textiles, to chemicals and food. The Italian *Mittelstand* had been, in the country's economic history, largely smashed between the relevance of the large corporations (both private and State-controlled) in capital intensive industries and the collective effervescence of very small production units in the industrial districts. It was only during the last two decades of the 20<sup>th</sup> century that companies with an average dimension in the size of hundreds, more than thousands, employees, and total sales in the size of hundreds of millions of euros (more than of thousands) started to show a considerable dynamism if compared to the very large as well as to the very small. This

success has been achieved through a virtuous mix of successful strategies and traditional organizational and ownership structures. Despite sectorial diversification, however, the entrepreneurial models characterizing the companies of the Italian *Mittelstand* show a high degree of convergence. The fashion industry provides telling examples in this respect, helpful in the analysis of both strengths and weaknesses of this very recent form of capitalism in the country's economic history.

The article is organized as follows. In section 1 we provide an overview of the main features of the entrepreneurial models characterising the Italian *Mittelstand*. Such a general approach introduces section 2 in which the focus moves onto a more specific object: the Italian clothing industry and its development after World War II. In section 3 the focus will be shrunk by adopting a microeconomic perspective. In this section two Italian luxury businesses included in the ranking of the top ten most profitable ones – Zegna and Armani – will be analyzed with the aim to shed some light on the main characteristics of the Italian luxury firms. Section 4 concludes by attempting to suggest an interpretation of the changes occurred in the Italian fashion companies since 1980s which stress the role played by entrepreneurial families in leading them to achieve an international standing.

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## 1. THE ITALIAN MITTELSTAND: MODELS OF ENTREPRENEURSHIP, STRENGTHS AND WEAKNESSES

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In 2005 Mediobanca, one of the most important Italian financial institutions with a

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(1) Art historian G.C. Argan has matched the two interpretations in "Costume", *Enciclopedia Universale dell'Arte*, vol. IV, Novara, De Agostini, 1981, p. 199, *ad vocem*.

long tradition in data collection and analysis, published a report titled *Le medie imprese industriali italiane* (Mediobanca 2005), based on the financial reports of around 3300 medium size companies (between 50 and 499 employees and with sales of between 13 and 260 million euros). Notwithstanding the problem of giving a precise dimensional definition (thresholds are always arbitrary), the data show clearly the dynamism of the *Mittelstand* in terms of performances, far better than those of their large and small counterparts.

Taken as a whole, the middle-sized Italian capitalism shows some characteristics which are fairly common across very different sectors. These common features show clearly the relevance of history in shaping the form which this dynamic section of the Italian capitalism is taking at the beginning of the new millennium.

## Origins

The origins of a large section of the Italian *Mittelstand* are to be found inside the diffuse entrepreneurship characterizing the many industrial districts scattered all over the Peninsula. This is particularly (even if not exclusively) evident in the case of textiles, clothing, furniture and footwear, based upon an extensive use of subcontracting. The dynamism of some producers, successful in coordinating the resources present inside the local system and, if necessary, in enlarging their dimensions and building extensive distribution networks, is at the origin of many of today's medium-sized companies. A relevant example in this respect is provided by the history of Della Valle group (internationally known through brands like Tod's) with its close ties with the Marches shoemaking district, more or less the same conditions which fostered, during the 1960s and 1970s, the early consolidation of the Benetton group, or later of Diesel. This highlights the issue of relationships between

these middle-sized corporations and their surroundings, especially that of local production systems as industrial districts.

## Relationship with the context

The relationship between medium-sized corporations and know-how present at the local level is in general close. This allows them to benefit from generally high quality critical resources in terms of labor and know-how, flexibility, innovation, and also of market demand. One example in this respect is SCM, a machine-tool company located in Rimini (Emilia-Romagna). The company grew up from a small workshop during the 1950s thanks to the orders coming from small firms producing furniture in the neighboring area of Pesaro, and was able to produce specific purpose machinery thanks to its close relationship with the customers. Now SCM exports around 75% of its annual production valued at 350 million euros. In any case, medium-sized, internationalized enterprises are not only to be found in the favorable and dynamic environment of the industrial districts but are also the result of the growth and expansion of specialized producers who began – as in the case of machine-tool makers in Bologna and Modena – to sell their products abroad once the internal market had been saturated.

## Timetables and sectors

The steady and noticeable growth of consumer goods production related to households (electric appliances, ceramic and tile productions, furniture and apparel) during the economic miracle boosted the growth and the affirmation of the majority of these “new” actors. Particularly significant is the case of the enterprises producing consumer goods (packaged food, health care goods and clothing) which started their story thanks to the radical changes in Italian society and consumption habits during the 1950s and 1960s.

It is worth stressing the fact that many of these corporations experienced their growth and consolidation from the late 1980s onwards, quickly transforming from small specialized firms or subcontracting workshops into leading actors on the world market. In these cases, a major force supporting the emergence of medium-sized, specialized and internationalized firms was the selection process which took place at that time inside the industrial districts, whose small firms started to be increasingly challenged by foreign low cost producers.

### Niche specialization

During the 1960s, the evolution of the most important industries such as automobiles and their components, housing construction and consumer goods fueled the growth of specialized producers which consolidated themselves on the domestic market and then quickly expanded abroad to fill worldwide market niches. This is, for instance, the case of ceramic tile manufacturers in Emilia-Romagna located in the Sassuolo area (such as Marazzi-Ragno). They, in turn, stimulated other very specific productions such as the industrial glues made by Mapei, a Milan-based family company founded in the late 1930s, now a successful multinational company in chemical products for the construction sector. Very similar – even if in a completely different field – is the story of some specialized enterprises which grew to an international dimension following the evolution of the automotive industry, such as car-frame makers like Pininfarina and Bertone. But in this area there are also enterprises which on the basis of a great technical experience positioned themselves as unchallenged suppliers of components, expanding their activity on an international level. It is the story of Brembo, which started at the beginning of the 1960s near Bergamo (Lombardy) as a small mechanics shop working as subcontractor for the most important national car makers. Following the requirements of its most important customer,

Alfa Romeo, Brembo started in 1965 to produce disk brakes, progressively specializing in this activity and becoming a world leader in braking systems, so as to now sell abroad almost two thirds of its sales of around 500 million euros.

### Organizational structures

The growth and the dynamism experienced by these enterprises during the last fifteen-twenty years have also stimulated their organizational evolution towards a not negligible degree of vertical integration. Usually a family holding controls a large number of internationally scattered, independent productive units (frequently run through joint ventures with local entrepreneurs). The birth of these “pocket multinationals” is a consequence of a rational strategy aimed at the minimization of administrative and co-ordination costs, and is also the result of the path of growth followed by these enterprises, typically pursued by means of the acquisition of existing smaller companies which maintained their independence.

### Entrepreneurial models

The affirmation of the medium-sized corporations meant also a transformation of the entrepreneurial role, although the continuities with the model of small entrepreneurship are not negligible.

The transition from the small workshop to a proper enterprise has been carried on (as the Zegna case will exemplify) generally (even if not exclusively) by the second, and sometimes third, generation, showing in general a better cultural level than that of the founders who were characterized by a combination of little formal schooling and a high commitment to productive tasks. The enlargement of the firm's boundaries and the adoption of a relatively complex organizational structure brought about a transformation of the decision process

which, even if still a family affair, seems to be much more participative than in the past, i.e. involving co-opted managers or professionals. The family however remains, as in the past, still at the top, influencing the succession strategies. Familism (that is the identification between the family and the enterprise and the consequent adaptation of the company's goals and strategies to the family's benefit) is, however, still a dominating feature, especially when succession strategies are considered.

The (on average) extremely good performances of these firms meant that adequate internal funds to sustain expansion have been available. The fact that they are not dependent on financial markets to gather additional resources contributes to the maintenance of the symbiotic relationship between ownership and control. In this respect, however, it is a matter of fact that what changed is the quality of the human capital available, which now has fewer specific and product-related skills, and is more oriented to general problem solving. On the other side, frequent contacts with the international financial community bring foreign institutional investors close to these medium-sized corporations which are now frequently listed. In turn, this gives rise to a number of problems related to corporate governance which are completely new for boards traditionally dominated by family representatives.

To sum up, the Italian *Mittelstand*'s distinctive features are based upon a virtuous relationship with the local context, innovative behavior basically in terms of introduction of incremental innovations and specialization in niche productions but with a strong orientation towards the international markets. In a very different way, the two cases discussed below show quite clearly

how a mix of these features can be at the origin of successful entrepreneurial stories.

## 2. INSIDE THE *MITTELSTAND*: A SNAPSHOT OF THE HISTORY OF THE ITALIAN CLOTHING INDUSTRY AFTER WORLD WAR II

Available figures on production and consumption of ready-made clothing in Italy in the years immediately following World War II suggest that in those years Italian fashion was still far from showing proper industrial features. It was primarily made of personal (individual) firms. Consumers were largely suspicious of ready-made garments. For the consumption model prevailing at that time, ready-made was still synonymous of a low purchasing power and was often equal to readjusted and updated secondhand clothing. On the other side, industrial production suffered from the competition represented by tailor made clothes, while a network of distribution channels on a national scale still had to be built. In sum, at the mid of the 20<sup>th</sup> century fashion was still largely a pre-industrial sector<sup>(2)</sup>.

This backwardness was shaken by the European Recovery Program. Raw materials, financial means, machines and technological knowledge distributed to Italy by the USA deeply changed the textile and clothing industry. The substitution of obsolescent machinery, improvements in fabric ennobling and the introduction of new production processes fuelled an increase in the quantity and quality of the output of textiles. The absence of a clothing industry capable of absorbing the production of textiles compelled the firms active in the

(2) E. Merlo, "Le origini del sistema moda", in C. M. Belfanti – F. Giusberti (a cura di), *La Moda*, Storia d'Italia, Annali, 19, Turin, Einaudi, 2003, p. 667-697.

textile industry to create forward linkages, while the backwardness of the Italian distribution system forced the same firms to create their own retailing networks. But the United States were also observed and studied because at that time they were the largest clothing market: in 1951 – the year fashion historians conventionally date back the birth of the Italian fashion – only American journalists and buyers were admitted to the first collective Italian fashion show organized by the Florentine buyer Giovanni Battista Giorgini (1899-1971)<sup>(3)</sup>. As a matter of fact, the 1950s and the 1960s saw the creation of large vertically integrated manufacturing units in Italian clothing industry in order to exploit new market opportunities<sup>(4)</sup>.

By the mid of the 1970s a new phase began. The increasing costs both of labor and raw materials pushed firms to downsize, especially by outsourcing labor intensive activities. Between 1971 and 1981 the number of firms with less than 500 employees increased by nearly 140 000. More than one thousand of them were small firms with less than 9 workers. At the beginning of the 1980s nearly 90% of jobs in the Italian clothing industry were in firms with less than 100 employees<sup>(5)</sup>. In those

years industrial districts emerged as the distinctive feature of the Italian clothing industry<sup>(6)</sup>. As extremely homogeneous and cohesive social and productive clusters featuring high specialization and strong propensity to innovation, they allowed to pursue the advantages – in terms of economies of scale – of large scale production without giving up the flexibility of the small firms. In explaining the changes occurred in Italian clothing industry one must also consider that new competitors appeared alongside the French and Italian designers, in particular American designers (Calvin Klein, Donna Karan, Ralph Lauren). At the same time, on the demand side new kinds of consumers emerged, such as young people and consumers looking for new kind of dresses like sportswear<sup>(7)</sup>. The emergence of a new style of dressing, which rejected the standardization of clothing, was faced by the Italian clothing industry thanks to both the flexibility provided by industrial districts and the partnership between industry and fashion designers, elements that until today remain the main distinctive aspects of the Italian fashion system.

Changes which occurred both on the demand and the supply side fuelled the emergence of the Italian luxury industry.

(3) E. Merlo and F. Polese, "Turning Fashion Into Business, The Emergence of Milan as International Hub", *Business History Review*, vol. 80, September 2006.

(4) See E. Merlo, "Le origini del sistema moda", *art. cit.*, who describes the changes in scale and scope which in those years transformed some Italian textile firms such as Gruppo Finanziario Tessile, Marzotto, Miroglio, and G. Pent Forengo, *L'industria dell'abbigliamento italiana*, Bologna, Il Mulino, 1979.

(5) See G. Pent Forengo, "Product Differentiation and Process Innovation in the Italian Clothing Industry", in G. van Liemt (ed.), *Industry on the Move: Causes and Consequences of International Relocation in the Manufacturing Industry*, Geneva, International Labour Office, 1992, p. 209-233.

(6) There exists such a large body of theoretical and empirical literature on Italian industrial districts that it cannot be listed here. Among the main references and most recent ones we can mention G. Becattini, F. Pyke and W. Sengenberger (eds.), *Industrial Firms and Inter-Firm Cooperation in Italy*, Geneva, International Labour Office, 1990; F. Cossentino, F. Pyke and W. Sengenberger (eds.), *Local and Regional Response to Global Pressure: The Case of Italy and its Industrial Districts*, Geneva, International Labour Office, 1996.

(7) On this phase of the 20<sup>th</sup> century history of fashion see C. Breward, *The Culture of Fashion: a New History of Fashionable Dress*, Manchester, Manchester University Press, 1995 and V. Mendes and A. De la Haye, *20<sup>th</sup> Century Fashion*, London, Thames & Hudson, 1999.

### 3. LUXURY INDUSTRY AND LUXURY BUSINESSES IN ITALY: OLD AND NEW ENTREPRENEURIAL DYNASTIES

To be able to provide a measure of the luxury goods industry it is crucial to have a definition of luxury. According to the definition given by the Comité Colbert – the French luxury trade association – “une industrie de luxe se caractérise par six points: une appréhension nécessairement internationale de tous les aspects du management; des produits de haute qualité; une image forte et cohérente, souvent à connotation culturelle proche de l’art de vivre; une accessibilité en termes de prix au grand public; une créativité sans cesse renouvelée; une distribution parfaitement choisie, contrôlée et gérée”<sup>(8)</sup>.

The definition suggested by the Comité Colbert has been only partially accepted by the report *The Luxury Goods Industry* – a comparative study on the luxury economy placed on order at the beginning of 1990s for the consultant agency McKinsey by the Comité itself, according to which a firm has to meet two criteria to be recognized as part of a luxury industry: the manufacture and/or commercialization of products or services

intended for the end user, and the incorporation of expertise involving applied art. As for the second one, it is itself defined from two viewpoints: the designers’ viewpoint – involving substantial human effort in creating luxury goods – and the consumers’ viewpoint in search of products or services answering needs beyond that which is necessary or even useful, and appealing to the senses. 35 potential luxury sectors which met the two criteria were found. Just those of them which were associated to a brand that, over a five year minimum period, could justify a high price – i.e. a price considerably higher than that of products with comparable tangible functional features – were included in the luxury industry<sup>(9)</sup>. Although the main weakness of such a definition obviously consists in the almost totally arbitrary criteria applied to define the benchmark price, nevertheless price itself can be considered a watershed between two understandings of the luxury good: the traditional and somewhat outdated one – “where value stemmed from the intrinsic features of a product” such as the quality of materials or high-skilled technical requirements – and the present one according to which “luxury fashion products are generally intended for use, but they are also associated with some intangible dimensions that pertain to the realm of meanings and give these goods their marginal value”<sup>(10)</sup>.



(8) Quoted in M. de Ferrière, “L’industrie du luxe en France depuis 1945. Un exemple d’industrie compétitive?”, *Entreprises et Histoire*, 3, mai 1993, p. 86.

(9) The list of the potential luxury sectors includes sectors of activity – such as fashion and accessories, leather goods and luggage, shoes, cosmetics, jewellery, watchmaking, perfumes, champagne, spirits, wine, crystalware, silverware, chinaware – all analyzed in the report, and sectors of activity – such as furs, clothing, lingerie, cars, private jets, yachts, motorcycles, furniture, household fabrics, lighting, upholstery, catering, hotels, restaurants, musical instruments, video and sound equipment, stationery, books, printing, smokers’ goods, florists, and bodycare products, which have been listed among the luxury sectors but not analyzed by McKinsey’s report. See McKinsey & Co., *The Luxury Goods Industry*, English version of the Campus 90 Forum organized by the Comité Colbert at the Institut d’études politiques de Paris, Paris, 1990.

(10) M.-L. Djelic and A. Ainamo, “The Coevolution of New Organizational Forms in the Fashion Industry: A Historical and Comparative Study of France, Italy, and the United States”, *Organization Science*, vol. 10, 5, 1999, p. 624-625. Such a quotation echoes similar attempts to provide an exhaustive definition of luxury especially recurring in literature on French industrialization. See J. Marseille (ed.), *Le luxe en France du Siècle des Lumières à nos jours*, Paris, Association pour le développement de l’histoire économique, 1999. About “luxe consommé dans son ‘image’ plus que dans son usage” see also the introduction to P. Perrot, *Le Luxe. Une richesse entre faste et confort XVIII<sup>e</sup> – XIX<sup>e</sup> siècle*, Paris, Éditions du Seuil, 1995. “Traditional” and “present” definitions of luxury have been recently challenged by M. J. Silverstein and N. Fiske, *Trading Up. The New American Luxury*, New York, Portfolio, 2003.

Such attempts to provide an exhaustive description of what "luxury" means show that we really lack an unambiguous definition of the luxury industry. Far from being objective, available definitions are rather operational. Such a limit largely depends on a specific aspect of the industry producing luxury goods: it extends across a range of different business sectors. Therefore, there does not exist official statistics providing data on the luxury industry, at least in Italy. Information are rather supplied by private associations specialized in carrying on researches focused on specific business fields. According to one of them – Pambianco, Italy's leading consultant in the fashion sector – at the end of the 1990s the value of the luxury goods – quite generically defined as "products able to communicate an elegant and refined way of being and living, constantly demanding quality and style" – marketed all over the world amounted to 47 billion euros. The value of the Italian luxury goods – divided among the main categories as shown in Table 1 – amounted to 14 billion euros. Half a century after the USA had "discovered" Italian fashion through the collective fashion show organized in Florence by Giorgini, Italy had definitively achieved an international standing in luxury business.

The ranking of the top ten most profitable Italian luxury brands includes some of the world's leading names in clothing, shoes, and leather goods firms such as Prada, Armani, Max Mara, Zegna, Ferragamo, Tod's and Versace. Although the majority of them were originated by the clothing business, more or less recently they all have diversified their activity in almost every sector broadly

speaking related to fashion. For sure, the process of diversification of the range of products marketed with the same brand has been a strategy shared by the majority of the firms listed above, and particularly by two of them: Zegna and Armani. Even if they cannot be considered representative of the large variety of firms belonging to the multifarious world of the Italian luxury industry, we have chosen to shortly describe their recent history as they represent two opposite type of firms between family and individual business, old and new entrepreneurial generations, product and market oriented strategies.

Before proceeding, an information about sources is in order. As we have said in the introductory remarks, companies active in the Italian fashion industry rarely possess historical archives. Given the lack of business records, the existing literature and database quoting articles published by the financial, economic and specialized press are the main source we have referred to study the evolution of the Italian luxury industry from a microeconomic perspective, along with records of the Archives of the Chambers of Commerce when available.

## Ermenegildo Zegna

Established in 1910, Ermenegildo Zegna SpA – named for its founder (1890-1966) who was just 20 years old when he took over his family's small business producing wool fabrics in Trivero, a little village located in the Biella district (Piedmont region, north-west Italy) – is a business still today wholly controlled by the family, now represented by its fourth generation<sup>(11)</sup>.

**Table 1. Share of the world market covered by Italian luxury goods (%), 1999.**

Clothing	Shoes	Leather	Glasses	Perfumes	Jewellery	Watches	Cosmetics	Total
39,3	33,3	38,0	66,7	10,5	18,2	12,3	10,0	30,0

Source: Pambianco, *Lusso. Le strategie di Italia e Francia*, 2000.

(11) See M. L. Cohen, "Ermenegildo Zegna SpA", in *International Directory of Company Histories*, vol. 63, Farmington Hills, St. James Press, 2004, p. 149-152. For a short entrepreneurial biography see also G. Vergani (ed.), *Fashion Dictionary*, Milan, Baldini Castoldi Dalai Editore, 2006, *ad vocem*.



The history of Zegna's company can be approximately divided in four periods. In the first one (1910s – mid of 1960s) the founder, well aware of the technological backwardness suffered by the Italian wool industry, started to emulate its English counterparts, since the beginning of the 19<sup>th</sup> century undisputed leaders in producing fabrics for men's suit they were also able to perfectly tailor. Pushed by the shortage and the low quality of the raw material supplied by the Italian breeders, in that period Ermenegildo Zegna began to travel around the world in search of the best wool, putting on the basis for the vertical integration of the productive process.

In the second period (mid of 1960s – 1970s), the second generation – strongly committed to the paternal heritage of distinctiveness in high-quality fabrics – decided to launch the first Zegna men's suit line, soon transformed in a complete branded collection including knitwear, sportswear and accessories. At the same time foreign markets were exploited by introducing the Zegna brand to a number of the biggest department stores and retailers.

By the end of the 1970s a new retailing strategy was undertaken by developing a network of retail stores directly owned by the company. Innovation consisted in a new retail format, in which stores were branded as well as products, aimed to enforce the company's image among an exclusive clientele throughout the world. Paris, Milan, London in the 1980s, New York, Lisbon, Vienna, Shanghai and Barcelona in the 1990s, hosted the Zegna retail stores opened in keeping with a strongly export oriented retailing strategy – also based on franchise stores opened in the Far East and elsewhere – maintained from 1980 onwards.

In the last period, starting from the beginning of 1990s, the company pursued a diversified strategy of growth. The number of

brands has been increased: Zegna Soft, Zegna Sport and the youth oriented Z. Zegna brand were launched respectively in 1992, 1998 and 2004. Partnerships with designers – such as Gianni Versace, Romeo Gigli and Antonio Miro – have been established in order to produce designer labelled clothing. The joint venture ZeFer with Ferragamo was formed in 2002 to mark with the Zegna brand a line of footwear and leather accessories. Acquisitions have been made to further extend the range of clothing and accessories branded with the name Zegna: in 1995 the company acquired Tarsa, a Mexican clothing manufacturer and retailer, in 1999 it was the turn of the Italian luxury womenswear maker Lanerie Agnola SpA, in 2001 and 2002 Zegna bought most of the fabric maker Master Loom and achieved the majority of control of Guidi which owned the Longhi brand of leather goods.

At the beginning of the new century, Ermenegildo Zegna SpA produced more than two million meters of fabric, more than 350 000 finished suits and two million shirt, ties, sportswear. In 2002 employees were 5 000 and sales amounted to 661, 3 million euros (\$828 million). Zegna has a strong presence in foreign markets, in which 135 retail stores owned by the company and 245 in-store boutiques have been opened from the 1980s onwards. As a result of such an export oriented retailing strategy, just roughly 15% of the company's sales are achieved in Italy, while Europe and North America are the company's largest markets – more than 70% of sales –, followed by the fast growing Chinese market.

## Armani

Giorgio Armani (1934) – the founder of the other firm we have chosen to describe here – began his career in fashion in 1957 as a buyer of La Rinascente, the biggest Italian department store<sup>(12)</sup>, a job he left in 1964 to


(12) On the importance of La Rinascente in fuelling the birth of the Italian fashion see E. Merlo and F. Polese, "Turning Fashion Into Business", *art. cit.*

work as a fashion designer for Hitman, the men's clothing Italian company owned by Nino Cerruti<sup>(13)</sup> who belonged to a family active in wool fabrics manufacturing since 1881 based, like Zegna, in the Biella district. In 1970 he established himself as a freelance designer and, five years later, he formed his own company which produced ready-to-wear clothes for men and women. In 1978 GFT, one of the biggest Italian clothing firms<sup>(14)</sup>, proposed to Armani, who had just left Cerruti, a consulting agreement aiming at bringing to GFT's industrial culture an innovative stylistic know-how. Armani declined a simple consulting agreement and instead proposed a licensing agreement for a production of a line under his own name with a precise distinction of tasks between the two parts<sup>(15)</sup>. Since then, the Armani case became the model from which in Italy the relationship between industry and creativity was built.

At the end of the 1970s the exploitation of the foreign markets began in the USA, where the fashion designer established the Giorgio Armani Corp. At that time Armani's name already branded underwear, swimwear, clothes for youngest people (Armani Junior). However, he began to collect impressive economic results in the 1980s when the Armani Jeans brand and the Emporio Armani retail format were both introduced: in the second half of that decade

Emporio sales increased from \$75 million to \$209 million.

The last decade of the century saw a strong consolidation of the business strategies Armani had undertaken in the 1980s, aimed at progressively strengthening the direct control on every phase of production and marketing. As far as brand extension is concerned, an increasing variety of accessories have been marketed with Armani's brand, originally applied to fragrances and glasses licensed respectively by L'Oréal and Luxottica. As for joint ventures, Giorgio Armani acquired the majority of control of Italian textile and clothing factories – such as Antinea (women's clothing) and Intai (ties), bought two menswear factories from GFT, and established the joint venture Trimil with the Zegna Group to produce and distribute men's clothing. The retailing business has been enlarged through the opening of new stores – among them the three-level megastore opened in Milan in 2000 on the twenty-fifth anniversary of the Armani company – and by acquiring control of its Japanese and Hong Kong sales representatives.

A private company led by a small team of management consultants – among which the founder's sister Rosanna –, at the beginning of the new century Giorgio Armani SpA  totalled operating profits of 193 million.

(13) On the Lanificio Fratelli Cerruti see G. Vergani (ed.), *Fashion Dictionary, op. cit., ad vocem*. In the same Dictionary a separated headword is devoted to Nino Cerruti, the founder's son, who exported the men's Italian fashion by opening a boutique in Paris at the beginning of the 1960s and introduced the brand "Cerruti 1881".

(14) GFT (Gruppo Finanziario Tessile) was founded in 1930 from the merging of Lanifici Rivetti and Finanziaria Tessile. At the outbreak of World War II, Lanifici Rivetti was one of the largest Italian wool companies with about 7 000 employees. GFT's existence developed under the shelter of Lanifici Rivetti until 1954, when the three young Rivetti brothers – Franco, Silvio and Pier Giorgio – sold their stocks in the mill and took full control of GFT, the only business unit which was potentially equipped to face the new requirements of mass production as the firm managed by the Levi family already produced ready-to-wear clothes. Thanks to the cooperation of Italian tailors who had emigrated to the USA where they had achieved their skills during the growth period of the American clothing industry, the mass production techniques imported from the USA were adapted to the Italian situation. The innovation of the productive process was introduced together with the innovation of the product: the range of sizes grew from less than twenty up to about a hundred and twenty and, above all, they were no longer abstract sizes but for the first time they reproduced the physiognomic features of Italian population. At the beginning of 1970s GFT was one of the biggest Italian clothing firms. A short history of GFT has been traced in G. Berta (a cura di), *Appunti sull'evoluzione del Gruppo GFT. Un'analisi condotta sui fondi dell'Archivio storico*, Turin, Gruppo GFT, 1989.

(15) S. Saviolo and S. Testa, *Strategic Management in the Fashion Companies*, Milan, Etas, 2002.

euros. Sales amounted to 1,03 billion euros (\$972,6 million). Employees were almost 4 000<sup>(16)</sup>.

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## CONCLUSIONS

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How can business historians contribute to explain the changes which have transformed the Italian fashion companies since the 1980s? Which kind of interpretation can they provide of the role played by entrepreneurial families in leading them to achieve an international standing? By comparing the two company histories we have summarized above we can collect some useful issues to start from.

Firstly, both company histories show that luxury goods, as they are less influenced by the largely unpredictable excesses of fashionable trends, call for a worldwide market. From the demand side, the booming world economy of the 1980s fuelled the flourishing of the luxury industry. From the supply side, the new riches met companies strongly committed to invest in brand, advertising and retailing. As a matter of fact, the luxury industry has been prompted by a bunch of innovations in retailing rather than in manufacturing, to the point that the 1980s seem to be more properly indicated as the birthday of luxury retailing.

The push towards the world market is, as said above, one of the distinctive features of the Italian *Mittelstand*. For sure, as far as the amount of the total sales and the number of employees are concerned, Zegna and Armani represent the "top side" of the category. Really, they look like giants when compared to the majority of Italian firms, while they are closer to medium-size firms when compared to the French top ten luxury companies. Nevertheless, the dynamics and the steps of

the internationalization process involving them are representative of a competitive strategy widely diffused among Italian medium-sized companies based upon the exploitation of the opportunities given by the globalization process.

Both cases show very well another of the features present at a more general level among Italian medium-sized enterprises, that is the tendency to strengthen corporate policies directed towards vertical integration, fostered by the issue of keeping strategic elements under strict control, among which quality of goods and brand.

Also in the 1980s – like in the 1950s and 1960s – product quality, style, and prices kept on to be competitive advantages but marketing strategies became a critical factor for successful competition as they had never been before. Italian fashion companies concentrated their efforts on image, communication, advertising, retail networking, and the company's name – or the designer's name – became the core of the marketing strategies, their main lever, a sort of umbrella that guaranteed that all the products branded with the same name belonged to the same area of taste and identity. Luxury goods were branded along with stores – and an increasing number of them were directly owned by the company. To be sure, retailing strategies have been aimed to pursue the goal to go along with the international market enlargement, but they also reveal that the main innovation rested on the "flagship" and "concept" stores conceived as a means – often self-financed thanks to impressive profits – to strengthen the company's image.

Albeit stimulated by a sort of retailing revolution, the luxury industry calls for a consolidated industrial background which deeply distinguishes the old from the new

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(16) Data are referred to 2000. M.-L. Djelic and A. Ainamo, "The Coevolution of New Organizational Forms in the Fashion Industry", *art. cit.*, p. 622-637.

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entrepreneurial generations. As they grew along with the process of industrialization which lately and slowly caught on in Italy, the old ones are strongly product oriented, they pay close attention to the monitoring of product quality and design, and search constantly for technical improvements and innovations. Zegna is a vertically integrated business in which every phase of the productive process – from the selection of the finest wool threads produced in Australia, Mongolia and South Africa to the sale to the end consumer of the finished suit made of cashmere, mohair and merino wool fabrics – is directly and strictly controlled by family management. When outsourcing prevails as in the case of Salvatore Ferragamo SpA – a Florence based family company, now represented by its third generation, which started producing high quality shoes and today also markets branded clothing and leather goods – the tight nature of the network linking the brand's owner to the subcontractors and the regularity of partnerships, which never changed in the last 20 years, make control easier<sup>(17)</sup>.

Unlike the old entrepreneurial dynasties, the new ones lack industrial culture. In order to make up for such a lack of technical and productive background, they have had recourse to licensing. Licensee agreements have allowed fashion designers to have manufacturing, retailing and business management skill at their own disposal. On the other side, by buying the right to label their own products with the fashion designer's brand, the firms producing clothing and accessories have achieved goals such as diversification, entry in new

segments of markets, entry in new markets, saturation of manufacturing and distribution capacity. As a matter of fact, license agreements have transformed a liability into a competitive advantage which allowed Italian luxury companies to face the changes which occurred in the 1980s and to differentiate themselves from foreign competitors. Unlike the majority of French fashion companies, which have expanded through acquisition of brands in order to establish luxury empires<sup>(18)</sup>, the youngest generation of Italian fashion designers, lacking entrepreneurial capabilities, have expanded their companies by establishing steady partnerships with industry and by enlarging their own manufacturing and retailing network.

The cases of Zegna and Armani demonstrate the relevance of organizational innovation to manage the processes of growth and of internationalization of these companies. However, alongside with many similarities, they show also differences, among which the most relevant are those concerning the role of the family in providing the *Mittelstand* companies with the right ownership and managerial structures. In the case of Zegna, the company is safely in the hands of the third generation, which has been able to pursue successfully a new strategic turnaround. In the case of Giorgio Armani, the founder has been until now unable to craft a strategy of succession, given also the fact that he has no direct heirs to keep the leadership role in the family. This poses a truly delicate issue which concerns more or less all the *Mittelstand* firms. Their nature of family businesses provides them

(17) On Ferragamo's manufacturing organization see J. M. Hurstak and J. Raiser, "Salvatore Ferragamo, SpA", *Family Business Review*, vol. XI, 2, 1998. On the founder see his autobiography *Shoemaker of Dreams*, London, Harrap & Co. Ltd., 1957. See also M. L. Cohen, "Salvatore Ferragamo Italia SpA", in T. Grant (ed.), *International Directory*, op. cit., vol. 62, 2004, p. 311-313 and C. Piacenti Aschengreen, *Salvatore Ferragamo: the art of the shoe, 1898-1960*, New York, Rizzoli, 1992.

(18) This is the case of the retail and luxury-goods conglomerate Printemps-Pinault-Redoute, which owns several brands among the most renowned French and Italian ones such as Gucci, Bottega Veneta, Yves Saint Laurent, Balenciaga, Boucheron, and Sergio Rossi. See the articles by A. Chatriot and C. Degoutte in this issue of *Entreprises et Histoire*.

with many strengths, among which the most important is probably the flexibility and quickness in strategic decision making. On the other side, when the relationship between the family and the enterprise is not carefully

managed, for instance through a proper mechanism of selection of the new leaders, problems may arise both for the firm itself and, at a more general level, for the Italian economy itself.

gage dans un long déclin qui, au début des années 1990, l'avait réduit à la taille d'une petite PME. L'article dégage les raisons de la croissance rapide du groupe en insistant notamment sur son dynamisme commercial et sa politique d'offre créative. Il cherche ensuite à comprendre la logique du déclin en replaçant la stratégie des dirigeants dans le cadre des profondes transformations du système de la mode féminine internationale depuis 1945.

**BIANCHINI FÉRIER: GROWTH AND DECLINE OF A LYONESE SILK MANUFACTURER, 1888-1992. AN IDEAL-TYPICAL TRAJECTORY IN THE WORLD OF FRENCH LUXURY?**

The Lyons enterprise Bianchini Férier was founded in 1888. By the eve of the First World War it had become a regional group producing high quality silk-wares and trading them to home and foreign markets. But from the depression of the 1930s onwards the trajectory of this family-controlled and luxury goods firm experienced a turnaround and a long lasting decline such as, by the beginning of the 1990s, it was no more than a small-sized company. The paper studies the reasons of the quick growth of the group and points out its commercial dynamism and its creative supply strategy. Then, it tries to understand the dynamics of decline by setting this evolution into the context of the dramatic transformations of the international women fashion system from 1945 on.

— Andrea COLLI et Elisabetta MERLO

**ENTREPRISES FAMILIALES ET AFFAIRES DE LUXE EN ITALIE (1950-2000)**

Les entreprises italiennes de mode ont pris une grande importance internationale au cours des années 1980. C'est au cours de cette période que les marques qui sont aujourd'hui des références en matière d'élégance et de luxe ont commencé à concurrencer avec succès les marques françaises qui jusque-là avaient été les leaders incontestés de la mode. Profondément enracinée dans l'histoire de la production d'habillement qui en Italie était encore bien loin d'être industrialisée à la fin de la Seconde Guerre mondiale, la renommée acquise par les entreprises italiennes se comprend mieux à la lumière du dynamisme révélé par les entreprises moyennes italiennes à partir des années 1980. La comparaison de deux marques de luxe bien connues – Ermenegildo Zegna et Giorgio Armani – démontre que leur succès a été rendu possible grâce à un mélange vertueux de stratégies innovatrices et de structures d'organisation et de propriété traditionnelles qui reflètent le rôle prédominant joué par les dynasties entrepreneuriales dans l'industrialisation italienne.

**FAMILY BUSINESS AND LUXURY BUSINESS IN ITALY (1950-2000)**

Italian fashion companies achieved an international standing in the 1980s, when brands nowadays trendsetting in matter of elegance and luxury consumption started to successfully compete with their French counterparts which until then had been the undisputed leaders in fashion.

Deeply rooted in the history of the clothing production which in Italy was still far from showing proper industrial features at the end of World War II, the fame achieved by the Italian fashion companies can be better understood in the light of the dynamism revealed by the *Mittelstand* of Italian firms from the 1980s onwards. As confirmed by a comparison between two well known luxury brands – Ermenegildo Zegna and Giorgio Armani – their success relied on a virtuous mix of innovative strategies and traditional organisational and ownership structures, reflecting the predominant role played by family business in the Italian industrialisation.

— Corinne DEGOUTTE

**STRATÉGIES DE MARQUE DANS LA MODE : CONVERGENCE OU DIVERGENCE DES MODÈLES DE GESTION NATIONAUX DANS L'INDUSTRIE DU LUXE (1860-2003) ?**

La mode n'est pas le luxe ; pourtant aujourd'hui elle apparaît de plus en plus comme composante essentielle d'une industrie ou plus exactement des industries du luxe. Depuis les années 1980, ce secteur, à la différence de nombreuses activités industrielles en phase de recentrage, a été marqué par l'apparition de stratégies de diversification de certaines entreprises centrées jusque-là sur le textile, la joaillerie ou les arts de la table. La décennie 1980 a vu apparaître les premières bases des groupes de luxe. La naissance du groupe LVMH en 1987 constitue de ce point de vue une date charnière. Dorénavant, l'évolution de la mode va être durablement liée à celle des autres secteurs du luxe (parfums et cosmétiques, accessoires, maroquinerie, joaillerie). Une analyse précise des changements que la mode a connus depuis quelques années suppose un retour sur l'histoire.

**BRAND STRATEGIES IN THE FASHION INDUSTRY: CONVERGENCE OR DIVERGENCE OF NATIONAL BUSINESS MODELS IN LUXURY GOODS (1860-2003)?**

Fashion is not luxury. However, it more and more appears as one of the essential components of the luxury goods industry or more specifically industries. Since the 1980s, and in contrast to the general movement of refocusing on core businesses in other industrial activities during the same period, this sector has faced a profound change in strategies as some companies started to diversify from their know-how in textile, jewellery or tableware. The 1980s witnessed the founding of luxury groups. The birth of the LVMH group in 1987 is indeed considered as a turning point

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